

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 7053 – SB 7093

August 22, 2023

SUMMARY OF BILL: Exempts from state and local sales and use tax all sales of firearm safes and firearm safety devices.

FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$1,150,700/FY23-24
\$1,534,200/FY24-25 and Subsequent Years

Decrease Local Revenue – Net Impact - \$468,500/FY23-24
\$624,700/FY24-25 and Subsequent Years

Assumptions:

- Public Chapter 592 of 2021 exempted firearm safes and firearm safety devices sold between July 1, 2021 and June 30, 2022. Public Chapter 1053 of 2022 extended such exemption for sales occurring between July 1, 2022 and June 30, 2023.
- This legislation is effective upon becoming law, for the purposes of this fiscal note, it is assumed the effective date will be October 1, 2023 resulting in a nine-month impact.
- Exempting sales of firearm safes and firearm safety devices from state and local sales and use tax will result in a reduction in state and local sales tax revenue, beginning in FY23-24 and continuing into perpetuity.
- Local governments will not be reimbursed by the state for any loss in local revenue occurring as a result of this legislation.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- DOR requires dealers to report all sales of gun safes and safety devices during the sales tax holiday.
- Based on information provided by the DOR, the total of all state sales of gun safes and gun safety devices in FY22-23 was \$22,926,524.
- Fiscal Review Committee staff's current estimates for total sales tax collection growth rates is 4.06 percent in FY23-24. Assuming identical growth rates in taxable sales from the gun safes and safety devices, total such sales are estimated to be \$23,857,341 (\$22,926,524 x 1.0406) in FY23-24. For purposes of this fiscal note, such estimated sales are assumed to remain constant into perpetuity.

- Based on information provided by DOR, there were 12 transactions that would have been subject to single article taxes in the absence of the tax exemption from July 2022 to December 2022. For the purposes of this analysis, it is assumed there will be 24 such transactions annually.
- The Tennessee single article tax on the price of goods over \$1,600 and below \$3,200 is effectively \$44 $[(\$3,200 - \$1,600) \times 2.75\% \text{ single article tax}]$. It is assumed that all 24 transactions would be subject to the full \$44 single article tax under current law.
- The decrease in state sales tax revenue is estimated to be \$1,207,999 $\{[(\$23,857,341 \times 7\%) - (\$23,857,341 \times 7\% \times 3.617\%) + (24 \times \$44)] \times (9 \text{ months} / 12 \text{ months})\}$ in FY23-24 and \$1,610,666 $\{[(\$23,857,341 \times 7\%) - (\$23,857,341 \times 7\% \times 3.617\%) + (24 \times \$44)]\}$ in FY24-25 and subsequent years.
- Pursuant to Tenn. Code Ann. § 67-6-702(a) the local option sales tax only applies to the first \$1,600 of the sales price. Given that approximately 24 transactions will exceed \$1,600, and further assuming that all such transactions will exceed \$3,200, it is reasonably assumed that approximately \$38,400 in sales $[24 \times (\$3,200 - \$1,600)]$ will not be subject to local option sales tax.
- The decrease in local revenue is estimated to be \$491,908 $\{[(\$23,857,341 \times 7\% \times 3.617\%)] + [(\$23,857,341 - \$38,400) \times 2.5\%] \times (9 \text{ months} / 12 \text{ months})\}$ in FY23-24 and \$655,878 $\{[(\$23,857,341 \times 7\% \times 3.617\%)] + [(\$23,857,341 - \$38,400) \times 2.5\%]\}$ in FY24-25 and subsequent years.
- Fifty percent of tax savings, or \$849,954 $[(\$1,207,999 + \$491,908) \times 50\%]$ in FY23-24 and \$1,133,272 $[(\$1,610,666 + \$655,878) \times 50\%]$ in FY24-25 and subsequent years, will be spent in the economy on other sales-taxable goods and services.
- In FY23-24, the increase in state sales tax collections is estimated to be \$57,345 $[(\$849,954 \times 7\%) - (\$849,954 \times 7\% \times 3.617\%)]$, and the net decrease in state revenue is estimated to be \$1,150,654 $(\$1,207,999 - \$50,973)$.
- In FY23-24, the increase in local sales tax collections is estimated to be \$23,401 $[(\$849,954 \times 2.5\%) + (\$849,954 \times 7\% \times 3.617\%)]$, and net decrease in local revenue is estimated to be \$468,508 $(\$491,908 - \$23,401)$.
- In FY24-25 and subsequent years, the increase in state sales tax collections is estimated to be \$76,460 $[(\$1,133,272 \times 7\%) - (\$1,133,272 \times 7\% \times 3.617\%)]$, and the net decrease in state revenue is estimated to be \$1,534,206 $(\$1,610,666 - \$76,460)$.
- In FY24-25 and subsequent years, the increase in local sales tax collections is estimated to be \$31,201 $[(\$1,133,272 \times 2.5\%) + (\$1,133,272 \times 7\% \times 3.617\%)]$, and net decrease in local revenue is estimated to be \$624,677 $(\$655,878 - \$31,201)$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

/jb